

# FDIC State Profile

Summer 2005

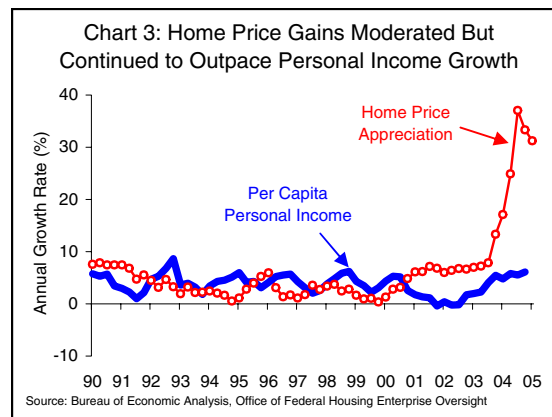
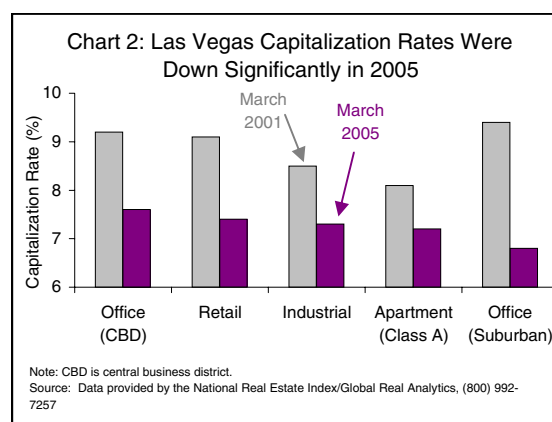
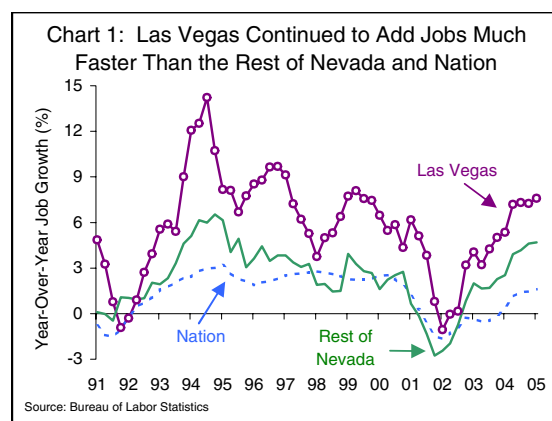
## Nevada

Nevada year-over-year job growth accelerated to 6.7 percent in first quarter 2005, the highest in the nation.

- The construction, leisure, and business services sectors continued to grow, together accounting for nearly 60 percent of all new jobs in the state. Overall, Nevada's job growth is expected to remain healthy, but may slow from its current pace.<sup>1</sup>
- The Las Vegas metropolitan area reported 7.6 percent job growth in first quarter 2005, far outpacing the rest of the state and the nation (See Chart 1). Consistent with the state as a whole, Las Vegas job growth centered in the construction, leisure, and business services sectors.
- Nellis Air Force Base, one of the state's largest employers, may gain more than 1,400 jobs if recent Base Realignment and Closure recommendations are adopted.
- Las Vegas' gaming revenues and visitor volumes continued to grow through first quarter 2005, but tourism growth lagged in Reno. The Las Vegas Convention and Visitors Authority expects the April 2005 Wynn casino opening to boost occupancy rates throughout the year.

**Commercial real estate (CRE) conditions strengthened, but rising interest rates may affect the market.**

- Vacancy rates declined year-over-year in the Las Vegas office, industrial, and multifamily markets. The area also reported solid rent gains in most property types.
- Declining capitalization rates over the past few years have contributed to rising commercial property values in Las Vegas (See Chart 2). However, an increase in interest rates could pressure capitalization rates and property values prospectively, all else equal.
- Las Vegas-based insured institutions continued to report elevated levels of CRE loans.<sup>2</sup> The statewide median CRE-to-Tier 1 capital ratio of 472 percent ranked first nationally.



<sup>1</sup>Forecast from Economy.com and Western Blue Chip Economic Forecast.

<sup>2</sup>Commercial real estate loans include construction, multifamily, and nonfarm-nonresidential mortgages.

## Investor activity contributed to home price gains.

- Annual home price appreciation in Nevada moderated slightly in first quarter 2005, but gains still ranked first nationwide. However, home price growth far outpaced increases in per capita personal income, suggesting continued declines in housing affordability (See Chart 3).
- A recent study by the FDIC identified 55 “boom” markets nationwide that included Las Vegas, Reno, and **Carson City**.<sup>3</sup> Speculative transactions may have contributed to price gains. DataQuick Information Systems estimates that investors who re-sold homes within six months accounted for 11.5 percent of Las Vegas-area home sales during first quarter 2005, versus 2.4 percent 5 years ago, and 3.7 percent nationwide.
- In spite of relatively low 30-year interest rates, adjustable-rate mortgages financed 46 percent of Nevada home purchases during 2004, up from 18 percent in 2003 according to the Federal Housing Finance Board. Similarly, Nevada-based insured institutions reported that variable rate loans comprised 45 percent of all first lien 1-4 family mortgages on a median basis by yearend 2004.
- Although annual growth of 1-4 family mortgage loans at Nevada-based institutions was strong at 32 percent, construction and development (C&D) loans grew by a larger magnitude. As a result, C&D loans may remain a significant source of housing-related risk (See Chart 4).<sup>4</sup>
- One-to-four family and C&D loan delinquencies remained low; however, loan performance could change as portfolios season or if home sales slow unexpectedly.

## Wider margins buoyed very strong earnings performance.

- Annualized year-to-date pre-tax return on assets improved through March 2005 and, at 1.97 percent, ranked second nationally.
- Although the median net interest income-to-average assets ratio narrowed slightly on a quarterly basis in early 2005, margins improved year-over year (See Chart 5). High concentrations in short-term and adjustable-rate commercial loans enabled asset yields increases to initially outpace funding cost hikes at Nevada banks.
- Earnings also benefited from declines in overhead and provision expenses.

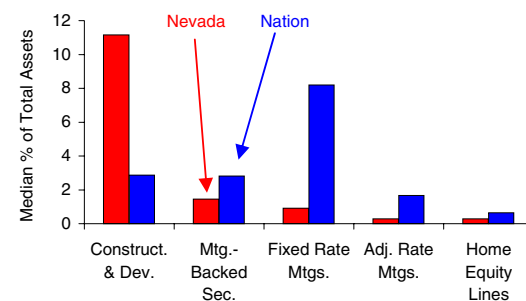
<sup>3</sup>Cynthia Angell and Norman Williams, FDIC FYI Revisited “U.S. Home Prices: Does Bust Always Follow Boom?” May 2, 2005. <http://www.fdic.gov/bank/analytical/fyi/2005/050205fyi.html>. A boom market is defined as one in which inflation-adjusted home prices rose by at least 30 percent during the 2001-2004 period.

<sup>4</sup>Because of data limitations, the proportion of construction and development mortgages related to single-family building is unknown.

## Problem loan levels remained low.

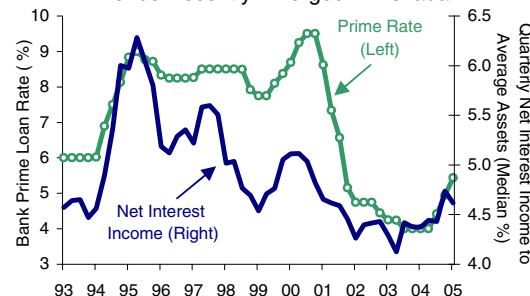
- Delinquent loan ratios improved due to strong job conditions, relatively low interest rates, and fast-growing, unseasoned loan portfolios.
- Median loan growth in Nevada was second highest nationally (behind Arizona), with increases broadly based across most major loan categories (See Chart 6). Rapid portfolio increases are consistent with the state’s high proportion of young institutions and vibrant economic growth. More than two-thirds of the state’s insured institutions have been open less than 10 years.

Chart 4: Traditional Mortgage Portfolios Are Small, But Construction Exposures Are High in Nevada



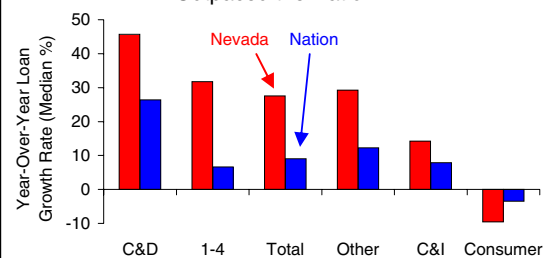
Source: FDIC (Call Report filers only, data as of March 31, 2005)

Chart 5: Prime Rate and Net Interest Income Trends Recently Diverged in Nevada



Note: rates are annualized.  
Sources: FDIC; Federal Reserve

Chart 6: Loan Growth in Most Categories Far Outpaced the Nation



Note: C&D is construction and development mortgages; other commercial real estate (CRE) includes multifamily and nonfarm-nonresidential loans; C&I is commercial and industrial. Source: FDIC (March 31, 2005)

## Nevada at a Glance

**ECONOMIC INDICATORS** (Change from year ago quarter, unless noted)

<b>Employment Growth Rates</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	6.7%	4.5%	3.4%	-1.5%	4.4%
Manufacturing (4%)	4.7%	3.3%	2.2%	-4.2%	4.8%
Other (non-manufacturing) Goods-Producing (11%)	18.3%	12.8%	6.5%	-1.5%	0.0%
Private Service-Producing (73%)	5.6%	4.0%	3.0%	-2.0%	4.9%
Government (12%)	4.1%	1.7%	4.2%	2.8%	4.7%
Unemployment Rate (% of labor force)	3.9	4.7	5.3	5.7	4.9

<b>Other Indicators</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Personal Income	N/A	8.3%	5.4%	4.0%	5.8%
Single-Family Home Permits	-12.2%	24.7%	14.4%	1.3%	0.5%
Multifamily Building Permits	-17.1%	-42.4%	53.6%	-52.0%	221.4%
Existing Home Sales	-9.7%	47.0%	22.9%	4.6%	31.4%
Home Price Index	31.2%	17.1%	7.0%	6.0%	6.1%
Bankruptcy Filings per 1000 people (quarterly level)	1.51	1.94	2.17	2.06	1.96

**BANKING TRENDS**

<b>General Information</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Institutions (#)	38	36	36	37	34
Total Assets (in millions)	56,451	50,632	43,357	38,603	35,466
New Institutions (# < 3 years)	4	5	7	12	11
Subchapter S Institutions	4	3	3	2	3

<b>Asset Quality</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.55	0.80	1.63	1.38	1.37
ALLL/Total Loans (median %)	1.17	1.21	1.34	1.28	1.41
ALLL/Noncurrent Loans (median multiple)	3.07	2.05	2.40	2.54	1.80
Net Loan Losses / Total Loans (median %)	0.03	0.06	0.14	0.13	0.19

<b>Capital / Earnings</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Tier 1 Leverage (median %)	9.35	9.21	9.46	10.31	10.96
Return on Assets (median %)	1.18	1.05	1.07	1.11	1.11
Pretax Return on Assets (median %)	1.76	1.50	1.48	1.49	1.69
Net Interest Margin (median %)	5.51	5.71	5.52	5.53	5.50
Yield on Earning Assets (median %)	7.87	7.51	7.68	7.92	8.46
Cost of Funding Earning Assets (median %)	2.10	2.02	2.24	2.52	3.09
Provisions to Avg. Assets (median %)	0.33	0.37	0.50	0.45	0.46
Noninterest Income to Avg. Assets (median %)	0.35	0.37	0.40	0.47	0.54
Overhead to Avg. Assets (median %)	3.58	3.59	3.74	3.86	3.75

<b>Liquidity / Sensitivity</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Loans to Assets (median %)	72.7	70.3	72.0	75.6	67.8
Noncore Funding to Assets (median %)	17.6	15.8	20.0	19.7	16.5
Long-term Assets to Assets (median %, call filers)	11.4	11.7	9.7	9.2	9.4
Brokered Deposits (number of institutions)	20	19	17	11	8
Brokered Deposits to Assets (median % for those above)	7.6	5.1	5.6	7.2	7.3

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Commercial and Industrial	95.6	112.9	103.5	125.0	87.9
Commercial Real Estate	472.1	407.3	386.4	348.6	245.5
Construction & Development	115.7	110.2	109.9	71.2	74.6
Multifamily Residential Real Estate	3.4	6.0	5.6	3.5	2.4
Nonresidential Real Estate	270.2	246.4	227.6	119.7	117.8
Residential Real Estate	36.5	30.4	32.2	31.5	42.8
Consumer	6.6	9.4	16.0	21.2	21.2
Agriculture	0.0	0.0	0.0	0.0	0.0

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Las Vegas-Paradise, NV	40	28,526	< \$250 million	18 (47.4%)
Reno-Sparks, NV	16	9,098	\$250 million to \$1 billion	9 (23.7%)
Carson City, NV	14	990	\$1 billion to \$10 billion	10 (26.3%)
			> \$10 billion	1 (2.6%)